

Department of Labor

**For the Year Ended
June 30, 1999**

Arthur A. Hayes, Jr., CPA, JD, CFE

Director

Charles K. Bridges, CPA

Assistant Director

Ronald E. Anderson, CPA

Audit Manager

Kimberly White

In-Charge Auditor

William Johnson

Roshena May

Staff Auditors

Amy Brack

Editor



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

May 1, 2000

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Michael E. Magill, Commissioner
Department of Labor
710 James Robertson Parkway, Andrew Johnson Tower
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Labor for the year ended June 30, 1999.

We conducted our audit in accordance with generally accepted government auditing standards. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the Department of Labor's compliance with the provisions of laws, regulations, contracts, and grants significant to the audit. Management of the Department of Labor is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the department's internal control and/or instances of noncompliance to the Department of Labor's management in a separate letter.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/mb
99/101

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Department of Labor
For the Year Ended June 30, 1999

AUDIT SCOPE

We have audited the Department of Labor for the period July 1, 1998, through June 30, 1999. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 1999, and the Tennessee Single Audit Report for the same period. In addition to those areas, our primary focus was on management's controls and compliance with policies, procedures, laws, and regulations in the areas of federal compliance with the Job Training Partnership Act, equipment, use of the state's mainframe computer system, and utilization of the Department of Finance and Administration's STARS grant module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with generally accepted auditing standards and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

AUDIT FINDINGS

Controls Over Equipment Need Improvement

The Department of Labor needs to strengthen controls over equipment. There appears to be a lack of communication relating to changes of equipment status such as location. Failure to update the property records weakens accountability for equipment and may result in loss of equipment (page 5).

The Department of Labor Does Not Properly Authorize Use of the State's Mainframe Computer System

The Department of Labor does not require its security administrator to obtain a signed form from its employees authorizing them to access the state's mainframe computer system. The department's Information Technology management should develop a standardized form or letter to identify new users, describe the system components they may access, and specify the operations they may perform (page 7).

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

Audit Report
Department of Labor
For the Year Ended June 30, 1999

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
Post-Audit Authority	1
Background	1
AUDIT SCOPE	2
OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS	4
Areas Related to Tennessee's Comprehensive Annual Financial Report and Single Audit Report	4
Equipment	5
Finding 1 - Controls over equipment need improvement	5
Information Systems	7
Finding 2 - The Department of Labor does not properly authorize use of the state's mainframe computer system	7
Department of Finance and Administration Policy 20, "Recording of Federal Grant Expenditures and Revenues"	8
PRIOR AUDIT FINDINGS	9
OBSERVATIONS AND COMMENTS	9
Title VI of the Civil Rights Act of 1964	9
Title IX of the Education Amendments of 1972	10
APPENDIX	10
Divisions and Allotment Codes	10
Expenditures by Allotment, Fiscal Year Ended June 30, 1999	11
Revenue by Source, Fiscal Year Ended June 30, 1999	11

Department of Labor For the Year Ended June 30, 1999

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of Labor. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The General Assembly created the Department of Labor in 1919 to supervise workshops and factories and enforce the laws regulating them. Since 1972, the department’s scope has expanded to include seven divisions.

1. The Division of Administration coordinates the activities of the other divisions; prepares financial budgets and work programs; and provides for the department’s legal, fiscal, personnel, and procurement needs.
2. The Division of Occupational Safety and Health (more commonly known as the Tennessee Occupational Safety and Health Act [TOSHA] division) is responsible for ensuring safe and healthful on-the-job conditions for every worker in the State of Tennessee. The division has three primary functions: to train and educate employers and employees in occupational health and safety, to perform inspections throughout the state to ensure that Tennessee’s occupational safety and health standards are followed, and to administer and enforce the Hazardous Chemical Right-to-Know Law.
3. The court-administered Tennessee Workers’ Compensation Law operates under the Division of Workers’ Compensation. This division’s primary duties are to inform, advise, and assist workers regarding their rights under the law and to administer the Workers’ Compensation Second Injury Fund. The division is also responsible for the administration of the Workers’ Compensation Reform Act.

4. The Division of Mines trains miners and mine owners. It also operates and coordinates state rescue efforts in the event of a mine disaster. The division maintains two mine rescue teams and also licenses underground and strip mines.
5. The Division of Boilers and Elevators is responsible for the administration and the enforcement of the Tennessee Boiler and Pressure Vessel Inspection Law and the Tennessee Elevator Inspection Law.
6. The Division of Labor Standards is charged with enforcing the Tennessee Child Labor Act, the Prevailing Wage, the Equal Pay Act, and the Wage Earners' Protection Act. The Research and Statistics Office, which compiles data on work-related injuries, operates under this division but reports directly to the assistant commissioner. The division's Employee Assistant Professionals (EAP) unit certifies and issues licenses to persons who practice employee assistance counseling at worksites. The EAP also enforces rules and regulations established by the unit.
7. The Division of Employment and Training is responsible for the administration of the Job Training Partnership Act of 1982 as amended. This division coordinates programs to prepare youth and unskilled adults for entry into the labor force and to provide job training for economically disadvantaged individuals facing serious barriers to employment. This division also administers grants under the Job Opportunities and Basic Skills (JOBS) program. The Department of Human Services, the grantee, has subcontracted with the Department of Labor to administer this program, which is available to persons receiving Aid to Families with Dependent Children (AFDC) payments. The program provides support services and job training.

An organization chart of the department is on the following page.

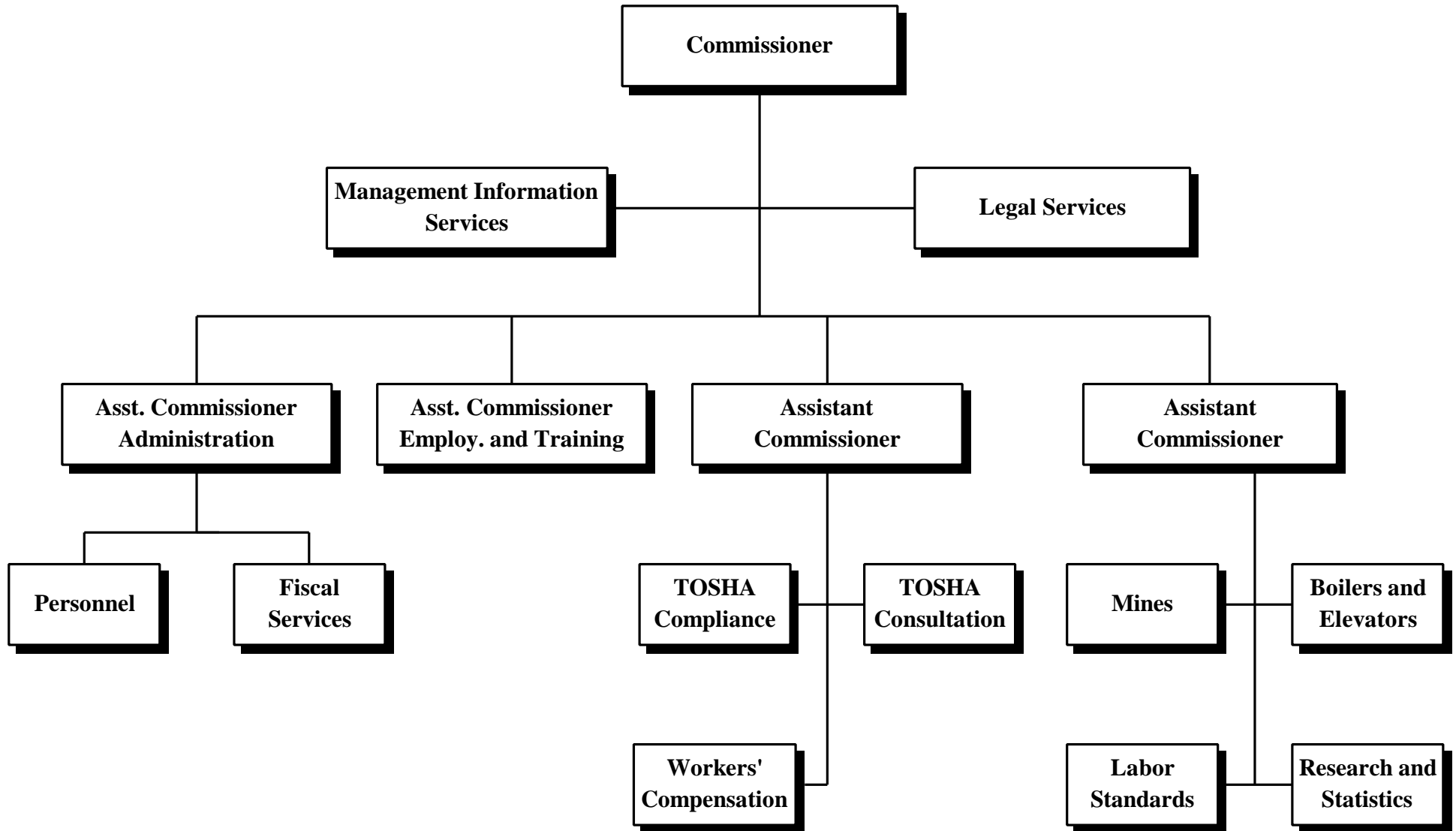
Effective July 1, 1999, the Department of Labor was combined with the Department of Employment Security to form the Department of Labor and Workforce Development.

AUDIT SCOPE

We have audited the Department of Labor for the period July 1, 1998, through June 30, 1999. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 1999, and to the Tennessee Single Audit Report for the same period. In addition to those areas, our primary focus was on management's controls and compliance with policies, procedures, laws, and regulations in the areas of equipment, information systems, and utilization of the Department of Finance and Administration's STARS grant module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with generally accepted auditing standards and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

DEPARTMENT OF LABOR

ORGANIZATION CHART



OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

AREAS RELATED TO TENNESSEE'S COMPREHENSIVE ANNUAL FINANCIAL REPORT AND SINGLE AUDIT REPORT

Our audit of the Department of Labor is an integral part of our annual audit of the Comprehensive Annual Financial Report (CAFR). The objective of the audit of the CAFR is to render an opinion on the State of Tennessee's general-purpose financial statements. As part of our audit of the CAFR, we are required to gain an understanding of the state's internal control and determine whether the state complied with laws and regulations that have a material effect on the state's general-purpose financial statements.

Our audit of the Department of Labor is also an integral part of the Tennessee Single Audit, which is conducted in accordance with the Single Audit Act, as amended by the Single Audit Act Amendments of 1996. The Single Audit Act, as amended, requires us to determine whether

- the state complied with rules and regulations that may have a material effect on each major federal financial assistance program, and
- the state has internal control to provide reasonable assurance that it is managing its major federal award programs in compliance with applicable laws and regulations.

In accordance with the provisions of the Single Audit Act Amendments of 1996, the Office of Management and Budget has grouped the Job Training Partnership Act and the Employment and Training Assistance–Dislocated Workers programs to form a cluster of programs for the purposes of determining major federal programs. We determined that this cluster of programs within the Department of Labor was material to the CAFR and to the Single Audit Report.

To address the objectives of the audit of the CAFR and the Single Audit Report, as they pertain to this one major federal award program cluster, we interviewed key department employees, reviewed applicable policies and procedures, and tested representative samples of transactions. In addition, we performed analytical procedures to determine if the department has sufficient controls to ensure the federal program cluster is administered in accordance with the basic laws and regulations governing it.

We have audited the general-purpose financial statements of the State of Tennessee for the year ended June 30, 1999, and have issued our report thereon dated December 10, 1999. The opinion on the financial statements is unqualified. The Tennessee Single Audit Report for the year ended June 30, 1999, includes our reports on the schedule of expenditures of federal awards and on internal control and compliance with laws and regulations.

We had no findings related to the federal program cluster; however, other minor weaknesses came to our attention which have been reported to management in a separate letter.

EQUIPMENT

The objectives of the review of the equipment procedures and controls were to determine whether

- equipment included on the Property of the State of Tennessee (POST) Exception Report was located or deleted from POST;
- equipment was correctly listed on POST;
- equipment was adequately safeguarded; and
- equipment sold, abandoned, damaged, or obsolete was removed from POST.

Key personnel were interviewed to gain an understanding of the department's procedures and controls over the inventory of equipment owned by the department. Supporting documentation was reviewed and samples of equipment maintained throughout the department were tested.

We determined that the department's controls over equipment need improvement, as noted in finding 1. In addition to the finding, other minor weaknesses have been reported to management in a separate letter.

1. Controls over equipment need improvement

Finding

The Department of Labor needs to strengthen controls over equipment. Tests of 80 equipment items in the Employment and Training and Workers' Compensation divisions revealed the following discrepancies:

- Six items (7%) were not at the locations on the permanent property listing. The items were found at other locations.
- Three items (4%) were not located by the department. One notebook computer had been stolen; however, the employee did not immediately notify the property officer of the theft. Two notebook computers were not collected from state employees upon termination after their resignations.

- One of these computers was subsequently located by the property officer. It was being used by a state employee in another department. This computer was returned to the Department of Labor. The other computer was not recovered.
- One item (1%) was listed under the incorrect division on the property records. The equipment was listed with allotment code 337.01, Administration, on the property listing but was being used by an employee under allotment code 337.07, Employment and Training.

Other audit procedures disclosed that the department did not properly tag an equipment item located in the training room.

Furthermore, the department's personnel division did not follow prescribed procedures for terminated employees. The department's Administrative Policies and Procedures Handbook states that employees are required to return assigned property of the state at the exit interview. However, the employee personnel files for the two former employees noted above do not contain exit interview documentation to indicate that the department made an effort to retrieve state property. The department does not appear to have a control mechanism in place to ensure that state property assigned to employees is properly returned prior to termination. There appears to be a lack of communication between the personnel division and the property officer relating to changes in the status of equipment.

The Department of General Services' Inventory Procedures Manual requires each department to maintain accurate property records. Failure to update the property records weakens accountability for equipment and may result in loss of equipment.

Recommendation

The department's subsidiary inventory records of equipment should be complete, current, and accurate. Each division must promptly provide information concerning issuance, movement, reassignment, loss, and theft of equipment. The subsidiary inventory records should identify the person who has custody of the equipment, and Property of the State of Tennessee (POST) records should be promptly adjusted to reflect any changes in equipment location. Controls should be established to ensure that all state equipment assigned to employees is returned upon termination. Additional recovery procedures may be necessary when terminations occur. All lost or stolen items should be reported to the Comptroller of the Treasury and removed from POST records.

Furthermore, all state owned equipment should be properly tagged. Management should frequently monitor equipment procedures to ensure compliance.

Management's Comment

We concur with the finding. The department fully understands the importance of strong internal controls over equipment.

We are diligently working on improving our procedures. The department implemented an employee termination checklist. This form is filled out by the supervisor upon employee's termination. We are in the process of computerizing our computer inventory records on a database that will allow us to maintain current records with exact location and employee who has possession of this equipment.

Also, a personal assignment checklist is being developed and will be distributed to all employees who have possession of equipment. It will allow the procurement division to be notified of all equipment moved, lost, stolen, re-assigned, and to adjust the inventory records promptly.

INFORMATION SYSTEMS

Our review of information systems included a review to determine whether the department required its security administrator to obtain documentation from its employees authorizing them to access the state's mainframe computer system.

We determined that the department did not properly authorize use of the state's mainframe computer system as noted in finding 2.

2. The Department of Labor does not properly authorize use of the state's mainframe computer system

Finding

IBM's Resource Access Control Facility (RACF) is the software security system used on the state's mainframe computers for controlling access to datasets, programs, and other resources. The Department of Labor does not require its security administrator to obtain a signed form from its employees authorizing them to access the state's mainframe computer system. Instead, RACF user identifications are issued without evidence of authorization. Effective information technology management requires that users are properly authorized before being allowed to access a computer system. Failure to follow such procedures could cause inappropriate disclosure or modification of vital state records.

Recommendation

The department's Information Technology management should develop a standardized form to identify new users, describe the system components they may access, and specify the operations they may perform. The form or letter should be signed by the new users' management to authorize the specified use of the computer system before a RACF user identification and password are issued. In addition, the form or letter should be kept on file to document those who have been authorized by management to use the computer system.

Management's Comment

We concur with the finding. The Departments of Labor and Employment Security were recently combined into the Department of Labor & Workforce Development. We are in the process of consolidating the Computer Security Administrative function within the Internal Audit Division. They will maintain the following:

- Written Request for Computer Code Authorization Form
- Database of Employee Information and RACF ID Numbers
- Card File of Active Security Agreements by Location
- RACF Changes Log

This consolidation is currently in process.

DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 20, "RECORDING OF FEDERAL GRANT EXPENDITURES AND REVENUES"

Department of Finance and Administration Policy 20 requires that state departments whose financial records are maintained on the State of Tennessee Accounting and Reporting System (STARS) fully utilize the STARS Grant Module to record the receipt and expenditure of all federal funds. Our testwork focused on whether

- appropriate grant information was entered into the STARS Grant Control Table upon notification of the grant award, and related revenue and expenditure transactions were coded with the proper grant codes;
- appropriate payroll costs were reallocated to federal award programs within 30 days of each month-end using an authorized redistribution method;
- the department made drawdowns at least weekly using the applicable STARS reports;

- the department had negotiated an appropriate indirect cost recovery plan, and indirect costs were included in drawdowns; and
- the department utilized the appropriate STARS reports as bases for preparing the schedule of expenditures of federal awards and reports submitted to the federal government.

We interviewed key personnel to gain an understanding of the department's procedures and controls concerning Policy 20. No material discrepancies were noted.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Tennessee Code Annotated, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. For the year ending June 30, 1999, the Department of Labor filed its compliance report and implementation plan on June 30, 1999.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

The State Planning Office in the Executive Department was assigned the responsibility of serving as the monitoring agency for Title VI compliance, and copies of the required reports were filed with the State Planning Office for evaluation and comment. However, the State Planning Office has been abolished. The Office of the Governor is currently evaluating which office in the Executive Branch will be the new monitoring agency.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

TITLE IX OF THE EDUCATION AMENDMENTS OF 1972

Tennessee Code Annotated, Section 4-4-123, requires each state governmental entity subject to the requirements of Title IX of the Education Amendments of 1972 to submit an annual Title IX compliance report and implementation plan to the Department of Audit by June 30, 1999, and each June 30 thereafter. The Department of Labor did not file its compliance report and implementation plan by June 30, 1999, in violation of this statutory requirement.

Title IX of the Education Amendments of 1972 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no one receiving benefits under a federally funded education program and activity is discriminated against on the basis of gender. The untimely filing of the compliance report and implementation plan required by state law does not necessarily mean that the department is not in compliance with the federal law.

APPENDIX

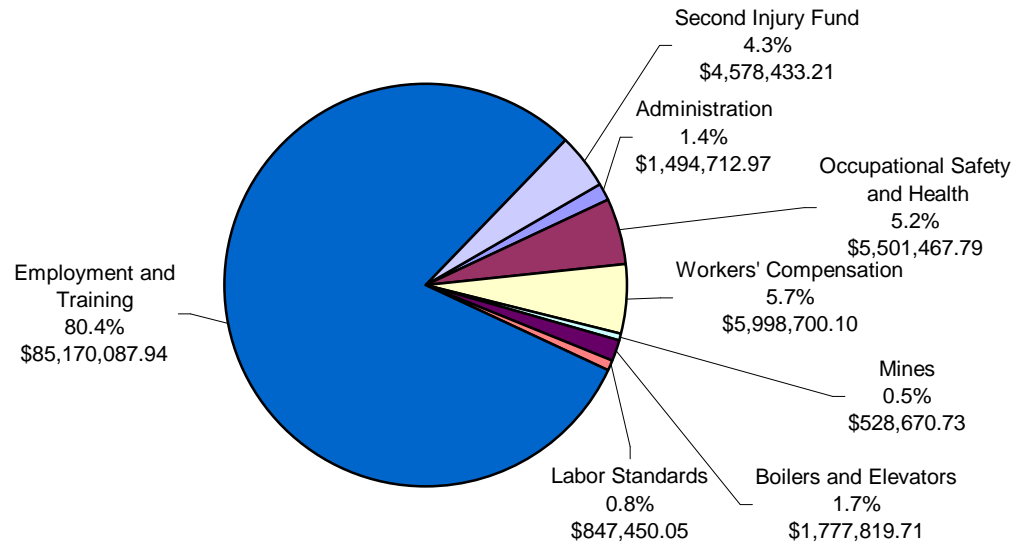
DIVISIONS AND ALLOTMENT CODES

Department of Labor divisions and allotment codes:

337.01	Division of Administration
337.02	Division of Occupational Safety and Health
337.03	Division of Workers' Compensation
337.04	Division of Mines
337.05	Division of Boilers and Elevators
337.06	Division of Labor Standards
337.07	Division of Employment and Training
337.08	Second Injury Compensation Fund

Department of Labor Expenditures by Allotment

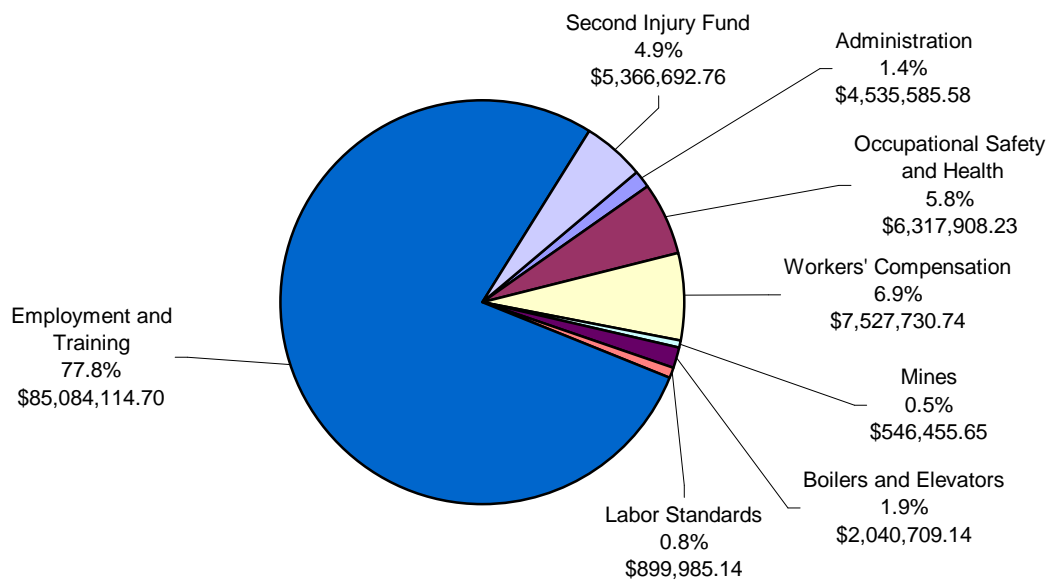
Fiscal Year Ended June 30, 1999 (Unaudited)



Source: Department of Labor

Department of Labor Revenue by Source

Fiscal Year Ended June 30, 1999 (Unaudited)



Source: Department of Labor